



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES AND
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES**

July 31, 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
CLAY COUNTY
EDWARD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES AND
1999 UNMINED COAL TAXES

Audit Opinion

We have issued an unqualified opinion on the Clay County Sheriff's 1999 taxes and 1999 unmined coal taxes.

Other Areas

- On November 10, 1999 the Sheriff had \$206,356 in deposits of public funds in depository institutions which were uninsured and unsecured.
- The Sheriff had a surplus of \$2,368 in unrefundable duplicate payments and unexplained receipts.
- The Sheriff should settle all amounts due as stated on the Sheriff's Settlement, which is included in the audit report. There were only small amounts due to the taxing districts.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James Garrison, Clay County Judge/Executive
Honorable Edward Jordan, Clay County Sheriff
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the Clay County Sheriff's Settlement - 1999 Taxes and the Sheriff's Settlement - 1999 Unmined Coal Taxes as of July 31, 2000. These tax settlements are the responsibility of the Clay County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Clay County Sheriff's taxes charged, credited, and paid as of July 31, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James Garrison, Clay County Judge/Executive
Honorable Edward Jordan, Clay County Sheriff
Members of the Clay County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated December 18, 2000, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 18, 2000

CLAY COUNTY
EDWARD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

July 31, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 189,080	\$ 247,065	\$ 1,147,087	\$ 373,118
Tangible Personal Property	19,042	25,944	115,504	68,372
Intangible Personal Property				25,592
Fire Protection	3,772			
Franchise Corporation	35,871	48,397	217,616	
Prior Year Franchise	578	795	3,493	
1999 Undeveloped Oil and Gas Property	97	127	591	192
1999 Oil Property	152	199	924	300
1999 Gas Property	5,468	7,145	33,172	10,790
Omitted Taxes	244	319	1,479	481
Penalties	3,058	3,944	18,294	6,117
Adjusted to Sheriff's Receipt	(115)	37	50	1
Gross Chargeable to Sheriff	<u>\$ 257,247</u>	<u>\$ 333,972</u>	<u>\$ 1,538,210</u>	<u>\$ 484,963</u>
<u>Credits</u>				
Discounts	\$ 2,329	\$ 3,000	\$ 13,859	\$ 5,259
Exonerations	3,512	4,613	21,305	6,426
Delinquents:				
Real Estate	13,004	16,787	77,939	25,352
Oil and Gas	192	251	1,167	379
Tangible Personal Property	267	364	1,620	859
Intangible Personal Property				1
Uncollected Franchise	187	255	1,135	
Total Credits	<u>\$ 19,491</u>	<u>\$ 25,270</u>	<u>\$ 117,025</u>	<u>\$ 38,276</u>
Net Tax Yield	\$ 237,756	\$ 308,702	\$ 1,421,185	\$ 446,687
Less: Commissions *	<u>10,392</u>	<u>13,120</u>	<u>56,847</u>	<u>19,272</u>
Net Taxes Due	\$ 227,364	\$ 295,582	\$ 1,364,338	\$ 427,415
Taxes Paid	227,279	295,705	1,363,742	427,305
Refunds Current Year	<u>56</u>	<u>66</u>	<u>340</u>	<u>110</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 29</u>	<u>\$ (189)</u>	<u>\$ 256</u>	<u>\$ 0</u>

* and ** See Page 4

CLAY COUNTY
EDWARD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
July 31, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	983,145
4% on	\$	1,421,185

** Special Taxing Districts:

Library District	\$	(204)
Health District		7
Extension District		(3)
Soil District		<u>11</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(189)</u></u>

The accompanying notes are an integral part of the financial statements.

CLAY COUNTY
EDWARD JORDAN, SHERIFF
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

July 31, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 1,124	\$ 1,469	\$ 6,819	\$ 2,218
<u>Credits</u>				
Discounts	\$ 8	\$ 10	\$ 49	\$ 16
Delinquents	1	1	3	1
Total Credits	\$ 9	\$ 11	\$ 52	\$ 17
Net Tax Yield	\$ 1,115	\$ 1,458	\$ 6,767	\$ 2,201
Less: Commissions *	47	62	271	94
Net Taxes Due	\$ 1,068	\$ 1,396	\$ 6,496	\$ 2,107
Taxes Paid	1,068	1,396	6,496	2,107
Due Districts as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

4.25% on	\$	4,774
4% on	\$	6,767

The accompanying notes are an integral part of the financial statements.

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS

July 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposit

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$206,356 of public funds uninsured and unsecured.

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
July 31, 2000
(Continued)

Note 2. Deposit (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 10, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 974,687
Uncollateralized and uninsured	<u>206,356</u>
Total	<u>\$ 1,181,043</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 1999 through July 31, 2000.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 24, 1999 through July 31, 2000.

Note 4. Interest Income

The Clay County Sheriff earned \$4,057 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$2,368 in unrefundable duplicate payments and unexplained receipts. In addition, the sheriff had unrefundable duplicate payments and unexplained receipts for 1996 taxes, 1997 taxes, and 1998 taxes.

CLAY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
July 31, 2000
(Continued)

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed
(Continued)

The following is a cumulative schedule of unrefundable duplicate payments and unexplained receipts which should be deposited into an escrow account:

<u>Tax Year</u>	<u>Amount</u>
1996	\$ 550
1997	746
1998	1,108
1999	<u>2,368</u>
Totals	<u>\$ 4,772</u>

As of the end of fieldwork, the sheriff has deposited \$2,184 of the \$4,772 unrefundable duplicate payments and unexplained receipts into an escrow account. Therefore, the Sheriff should send a written report to the Treasury Department and deposit the remaining surplus balance into an escrow account.

COMMENT AND RECOMMENDATION

CLAY COUNTY
EDWARD JORDAN, SHERIFF
COMMENT AND RECOMMENDATION

July 31, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 10, 1999, \$206,356 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff Jordan's Response:

Before 2000 tax collections, increased pledge to \$1,500,000.

PRIOR YEAR

- The Sheriff Should Require Depository Institutions To Pledge Additional Securities As Collateral To Protect Deposits.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Honorable Edward Jordan, Clay County Sheriff

Members of the Clay County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Clay County Sheriff's Settlement - 1999 Taxes and Sheriff's Settlement - 1999 Unmined Coal Taxes as of July 31, 2000, and have issued our report thereon dated December 18, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Clay County Sheriff's financial statements as of July 31, 2000, are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 18, 2000

